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Debt 101 for College Kids

 By **AMY HOOK**

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Every school year, college students are inundated with credit-card offers almost as soon as they set foot on campus. The pitches are hard to ignore for teens living on their own for the first time.

"In college, [credit] is an equalizer," says Bridget Smith, editor of LendingTree.com's Knowledge Center. It doesn't matter if a student's family isn't as wealthy as her roommate's family -- a credit card can dress them in the same trendy clothes, she adds.

That said, panicked parents of University of Illinois freshmen usually start calling Angela Lyons, an assistant professor of economics at the university, for advice by November, after some receive a couple of their children's statements and the charges start to add up. Dr. Lyons's research on student debt has earned her a reputation on campus, and the school often passes along calls from parents troubled about their children's finances. Parents may have initially agreed to use a joint account, but soon realize they can't keep up with the expenses their student is accumulating, she says.

There may be some signs of credit-card improvement, says Marie O'Malley, vice president of marketing for Nellie Mae, a unit of student-loan company SLM Corp. According to a Nellie Mae study of undergraduates who applied for student loans, the average outstanding balance on their credit cards in 2004 was \$2,169, down from \$2,327 in 2001.

But Dr. Lyons's research on student debt indicates that student borrowing overall -- with credit cards and private student loans -- is on the increase.

"A lot [of students] have maxed out on their federal loans and are turning to private loans now," she says. Dr. Lyons also fears that higher interest rates on student loans will make it tougher for current students who will begin repayment in several years. Not making timely payments on those obligations, whether credit cards or student loans, can have serious repercussions.

All of which underscores the importance of parents discussing responsible credit habits with their child. Five points to hit in a financial heart-to-heart:

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Keep a budget. Planning expenses will help keep spending under control, Mrs. Smith says. Dr. Lyons also advises parents to sit down with their kids and work out a four-year financial plan, including how much students can afford to borrow and how their career choice will position them to repay their loans in the long run.

Pay bills on time. For a student who does use a credit card, staying current with bills is important in building a good credit history. The credit history is essential in securing loans for large purchases including automobiles and homes; prospective employers and landlords also might run credit checks on an applicant.

Be careful with that card. Universities are becoming popular scenes of identity theft, Dr. Lyons says. Some students are too lax with the protection of their account numbers -- whether they share an account number with a friend to make an online purchase or leave a statement unattended in their dorm. Students and parents also need to be vigilant about reviewing statements for suspicious charges.

Get a good deal. The best way to use a credit card is to pay it off each month. But for students who anticipate carrying a balance, get the card with the lowest rate -- regardless of the introductory rate it offers, Mrs. Smith says. Parents can help students understand other terms of the card as well, including late-payment penalties and whether there's a universal default clause that will up the interest rate if a bill isn't paid on time.

Don't defer the interest on student loans. If possible, make interest-only payments while still in school and it could save thousands of dollars in finance charges, Mrs. Smith says. Interest folds into the principal after graduation, she adds, setting up a student to pay interest on the loan's interest.

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